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Alabama Handbook For Electronic Filers



Individual Income Tax Returns Tax Year 2004



Alabama Department of Revenue
Income Tax Electronic Filing Center
Publication AL1345 (Rev. 7-04)

September 9, 2004

Dear Alabama EROs:

During the **2004** filing season, Alabama received over **740,000 +** E-Filed income tax returns. The Department continues to be enthusiastic about the Electronic Filing Program and EROs have played a major part in the success of this program. Your efforts and interest have been greatly appreciated.

NOTABLE CHANGES FOR THE YEAR 2004

- **Administrative Rulings 810-3-27.09/.10 – Mandatory E-File**
- **Frequently Asked Questions – Individual Income Tax Mandate**
- **Added Schedule CR – Credit For Taxes Paid to Other States**
- **Deleted Part V, Page 2, AL40 – Federal Income Tax Liability Deduction Worksheet – 2003 Federal Advance Child Tax Credit Deduction**
- **Added 20 AL Schedule D's to E-File Program – 400 transactions per return transmitted**
- **Increased 1099R occurrences to 20**
- **Adopted New 120 Byte Federal/State Acknowledgement System**
- **IRS added two (2) more State Wage Fields to W-2 (Total 4)**
- **NOL'S are no longer an exclusion from the AL E-File Program (40NR AND 40X RETURNS ARE EXCLUDED FROM THE NOL (COMPUTATION/APPLICATION) AND MUST NOT BE TRANSMITTED TO AL.) THE NOL 85/85A ONLY APPLIES TO THE E40 ELECTRONICALLY FILED ALABAMA RETURN.**
- **Adding AL Forms NOL 85/85A "Net Operating Loss" to AL E-File Program**
- **IRS Field # 020 Declaration Control Number: Year Digit changed to Value '5'.**

NOTABLE CHANGES FOR THE YEAR 2004

(Continued)

- **AL Error Reject Codes:** Alabama will be adding/updating AL Error Reject Codes. See Section 3 for additions/changes.
- **Form AL40, Pg. 1, line 18.** The Tax Table “Check Box” has been deleted from the AL Generic Field 305.
- **Form AL40, Pg. 1, line 19.** The Enterprize Zone Act “Check Box” has been deleted from AL Generic Field 305.
- **Form AL40, Pg. 2, Part V** has been replaced with a Direct Deposit Section.

Thank you again for your hard work. We are confident that working together we can make the **Tax Year 2005** even more successful for the Alabama Electronic Filing Program. Your comments and suggestions are always welcome.

Sincerely,
Richard Henninger



Director
Individual and Corporate Tax Division

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INTRODUCTION

The Alabama Department of Revenue (ADOR) participates with the Internal Revenue Service (IRS) in the Federal/State Electronic Filing Program. Under the program Alabama individual income tax returns are filed electronically with federal individual income tax returns.

Those who wish to participate in the Federal/State Electronic Filing Program must first apply to the IRS by submitting Form 8633, Application to Participate in the Electronic Filing Program. IRS Publication 1345 specifies the application process and requirements for federal participation.

The ADOR automatically accepts electronic filers (electronic return originators and transmitters) which have been accepted to participate in the Federal Electronic Filing Program. No additional registration is required on the part of electronic filers.

This document, Alabama Handbook for Electronic Filers of Individual Income Tax Returns (Tax Year 2004), is to be used in conjunction with IRS Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns.

IRS Publication 1345 provides detailed instructions on policies and procedures for the federal electronic filing program. All rules, regulations, and requirements governing tax preparers, transmitters, and originators of returns specified by the IRS are in effect for the ADOR. This document sets forth the requirements unique to the filing of Alabama individual income tax returns. Together the documents specify the requirements for the joint electronic filing of Alabama individual income tax returns and federal individual income tax returns. Therefore, electronic filers are encouraged to become thoroughly familiar with both documents.

If there are any questions, comments, or suggestions concerning this handbook please write to:

Tavares Mathews - Alabama E - File Coordinator
Alabama Department of Revenue
Income Tax Electronic Filing Center
P.O. Box 327450
Montgomery, AL 36132

E-Mail: tavares.mathews@revenue.alabama.gov

ERO FORM RETENTION REQUIREMENTS

Alabama refund, nonpayment and balance due returns requiring the following forms and schedules can be filed electronically for the 2004 tax year:

Form 40	Alabama Individual Income Tax Return,
Form 40	Schedule A Itemized Deductions,
Form 40	Schedule B Interest and Dividend Income,
Form 40	Schedule D Profit from Sale of Real Estate, Stocks, etc.,
Form 40	Schedule E Supplemental Income and Loss,
Form 40	Schedule CR Credit for Taxes Paid to Other States, (including the other state's return)
Alabama Form 4952A	Investment Interest Expense Deduction,
Federal Schedule C	Profit or Loss from Business,
Federal Schedule C EZ	Profit or Loss from Business, (Short Form)
Federal Schedule F	Profit or Loss from Farming,
Federal Form 2106	Employee Business Expenses,
Federal Form 2106 EZ	Employee Business Expenses (Short Form)
Federal Form 3903	Moving Expenses,
Federal Form 4562	Depreciation and Amortization,
Federal Form 4684	Casualties and Thefts,
Federal Form 6252	Installment Sale Income,
Federal Form 8283	Noncash Charitable Contributions, and
Federal Form 8829	Expenses for Business Use of Your Home.

The Electronic Return Originator (ERO) is required to retain an electronic copy of the above forms and schedules for a period of three years from the due date of the return or the date the return is filed, whichever is later. **Note: This list is not all inclusive.**

If the need arises, ADOR may request any of the documents, in writing, and the ERO must provide a copy of the document within five working days of the request.

BALANCE DUE RETURNS

The ADOR accepts the transmission of balance due returns. The Alabama Form 40V, Individual Income Tax Payment Voucher, will serve as the remittance advice for Alabama individual income tax payments made by check or money order. **Credit card payments can no longer be paid with the Alabama Form 40V Payment voucher.**

HOW TO PAY YOUR ALABAMA TAXES BY CREDIT CARD

You can use your American Express, Discover/Novus, Visa or Master Card to pay your Alabama income taxes. Credit Card payments may be made by telephone by calling 1-800-2PAY-TAX

(1-800-272-9829), or over the internet by visiting www.officialpayments.com, and clicking on the "Payment Center" link. There is a convenience fee for this service. The fee is paid directly to Official Payments Corporation based on the amount of your tax payment. You must enter a Jurisdiction Code when prompted. **The Jurisdiction Code for Alabama is 1100.**

ALABAMA SALARIES, WAGES, AND TIPS

NOTE: ALABAMA DOES NOT FOLLOW THE FEDERAL 1040 CRITERIA FOR SALARIES, WAGES, TIPS, ETC.

Total AL Wages: Form 40, Pg. 1, line 6. Total Alabama Wages (Field 350 - AL Generic Record) must equal the total amount of all state wages (including Wages Earned Out of State) as reported in Box 16 of the Federal 1040 W-2 (IRS Fields #'s 0390 and 0460). **ALABAMA WILL ACCEPT AN ELECTRONIC RETURN WITH A STATUTORY EMPLOYEE VIA A W-2 OR FEDERAL SCHEDULE C.** A plus/minus +/- \$3.00 variance allowance has been added to Generic Field 350 to allow for rounding errors.

The 2004 AL40 Instruction Booklet for **LINES 6A THROUGH 6D “WAGES, SALARIES, TIPS, ETC. STATES THE FOLLOWING:** “Income” show the amount of wages you were paid before taxes, insurance, etc. were deducted. You should use the amount shown in the box headed “State Wages” on your Form W-2. The amount shown in this box may or may not be the same as the amount taxable for federal purposes. **ALL OTHER TAXABLE ITEMS LISTED ON YOUR W-2 FORM THAT ARE NOT INCLUDED IN THE “STATE WAGES” BOX SHOULD BE ENTERED ON LINE 8, PART 1, PAGE 2 “OTHER INCOME”.**

The following income amounts as defined by line 7 of the federal 1040 **MUST NOT BE INCLUDED IN ALABAMA WAGES, SALARIES, TIPS, AL40, PG 1, LINE 6.** The ALABAMA E-FILE PROGRAM will generate an **ALABAMA ERROR CODE # 50 AND REJECT THE ELECTRONIC RETURN. THESE AMOUNTS SHOULD BE REPORTED ON AL40, PG. 2, PART 1, LINE 8 “OTHER INCOME”. THE DESCRIPTION OF THE ITEM, LINE 8, “STATE NATURE AND SOURCE” MUST ALSO BE REPORTED.**

ITEMS NOT ON FORM W-2 OR FORM 1099R:

1. Miscellaneous Income, from Federal Form 1099-MISC
2. Earned Income from Federal Form 2555 (Foreign Earned Income)
3. Excess reimbursement, from Federal Form 2106
4. Excess Adoption Benefits
5. Forfeited Childcare Benefits from Federal Form 2441
6. Excess moving expense reimbursement, from Federal Form 3903
7. Wages earned as a household employee – House Hold W-2
8. Sick pay or disability payments
9. Wages from a Foreign Source

ALABAMA SALARIES, WAGES, AND TIPS

(Continued)

10. Ordinary income from ESPP stock sale
11. Ordinary income from incentive stock options
12. Federal "Guaranteed" Payments to K-1 Partnership
13. Taxable Scholarships
14. Taxable tips from Federal Form 4137

Form W-2:

1. Social Security Tips
2. Bonuses
3. Fees
4. Commissions
5. Allocated Tips OR tips from Federal Form 4137
6. Advanced EIC payments
7. Dependent Care Benefits

Form 1099R:

1. Disability before minimum retirement age
2. Return of contributions

ALABAMA ELECTRONIC FILING CALENDAR - TAX YEAR 2004

For Tax Period January 1, 2004 to December 31, 2004

- **Begin Federal Software Testing** **November 9, 2004**
- **Begin ADOR Software Testing** **November 9, 2004**
- **Final Date for
First ADOR Test** **January 1, 2005**
- **Federal/State Electronic Filing Operational** **January 14, 2005**
- **Last Date For Timely Filed Returns** **April 20, 2005**
- **(IF CONGRESS PASSES BILL)** **April 30, 2005**
- **Last Date for Extended Filing** **October 15, 2005**

- **NOTE: These dates are subject to change at any time.**

There are no testing requirements for EROs under the Alabama Electronic Filing Program.

**SOFTWARE COMPANIES INTENDING TO OFFER
ELECTRONIC ALABAMA INDIVIDUAL INCOME TAX RETURNS**

2004 TAX YEAR

2nd Story Software
ATX
CCH
C & S Technologies
Creative Solutions
Data Group
Drake Software
H&R Block
Intuit (Turbo Tax / ProSeries)
Jackson Hewitt Tax Service
Lacert (Intuit)
NTS Service Corporation
OrrTax Software Company
Petz Enterprises
RCS - Rhodes Computer Service (TAXSLAYER)
RIA – Research Institute Associates
TaxCut (Block Financial)
Tax Simple
Taxware Systems, Inc
Tax Works by Laser Systems
Universal Tax Systems, Inc.

CONTACT NAMES AND PHONE NUMBERS

Tavares Mathews: Alabama E-File Coordinator	(334) 353-9497
Fax	(334) 353-8068
E-Mail	tavares.mathews@revenue.alabama.gov
Alabama ERO Help Desk	(334) 353-9497
ADOR Internet Web Site	www.revenue.alabama.gov
IRS Help Line	(866) 255-0654

PUBLICATIONS

The following publications specify the applicable policies and procedures for Federal/State Electronic Filing, and for the Alabama Electronic Filing Program:

INTERNAL REVENUE SERVICE PUBLICATIONS

Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns

Publication 1346, Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns (Tax Year 2004)

Publication 1436, Test Package for Electronic Filing of Individual Income Tax Returns (Tax Year 2004)

ALABAMA DEPARTMENT OF REVENUE PUBLICATIONS

Alabama Handbook for Electronic Filers of Individual Income Tax Returns (Tax Year 2004)

Electronic Return Record Layouts for Alabama Individual Income Tax Returns (Tax Year 2004)

Alabama Test Package for Electronic Filing of Individual Income Tax Returns (Tax Year 2004)

HOW FEDERAL/STATE ELECTRONIC FILING WORKS

Electronic Return Originators (EROs) and transmitters accepted in the IRS Electronic Filing Program will be automatically accepted into the Alabama Electronic Filing Program, and will be able to file both the federal return and the state return to the IRS Memphis Service Center (MSC). The IRS acts as a conduit through which the ADOR will retrieve the state data packet for processing.

EROs and transmitters serve as agents of the ADOR for the origination and transmission of Alabama electronic returns and the retention of the non-electronic Alabama return data. The software used to prepare the returns and transmit the data must be tested and approved by both the IRS and ADOR – otherwise the Alabama returns will be rejected by the ADOR.

The sequence of events are as follows:

1. The ERO prepares the returns and signature documents, reviews the tax return information with the taxpayer, obtains the necessary signatures from the taxpayers, and using electronic filing software submits the electronic portion of the return for transmission to the IRS MSC.

2. The MSC either accepts or rejects the federal return.

If the return is accepted, the MSC acknowledges acceptance of the federal return with an electronic acknowledgment which is transmitted to the electronic filer.

If the return is rejected, the MSC transmits a rejection notice which provides error codes explaining the reason for rejection – the return (including the state return) is then corrected and retransmitted.

3. Within 24 hours of receiving the electronic acknowledgment, the ERO must submit the Federal Form 8453.
4. Upon the federal return being accepted by the MSC, the state return is available for the ADOR to download and load to its computer system.
5. If the state return was prepared using ADOR approved software, and the return contains no omissions or mathematical errors, an electronic acknowledgment will be transmitted to the IRS. If the state return was not prepared by ADOR-approved software and/or contains mathematical errors or omissions, an electronic rejection notice will be transmitted to the electronic filer. The State Acknowledgement file will contain an Alabama Error Code that will identify the condition that caused the Alabama return to reject. The Alabama return should be corrected and resubmitted to the IRS - MSC (Memphis Service Center) using the IRS 'SO' State-Only option.

HOW FEDERAL/STATE ELECTRONIC FILING WORKS

(continued)

6. The ERO must retain the Alabama Form AL8453 and all Federal and State Forms and Schedules for a period of three years from the due date of the return or the date the return is filed, whichever is later. If a credit for taxes paid to another state is claimed, the ERO must also retain a copy of the other state's return for the three year period.
- Approved refunds will be processed as soon as possible from the date the accepted acknowledgment is posted to the **IRS EMS System**. Alabama acknowledgments should be available for retrieval by transmitters within three business days or less from the dates of the Internal Revenue Service acknowledgments.

ALABAMA TESTING

Neither EROs nor transmitters are required to test data nor are they required to test transmissions. However, they should ensure that their software has been accepted and approved by both the Internal Revenue Service and the Alabama Department of Revenue. A master list of all approved software developers will be maintained by the Alabama ERO Help Desk and will be available upon request. An approved list of vendors can also be found on our ADOR website at the following URL address:

<http://www.ador.state.al.us/incometax/efilemain.htm>

All software developers are required to annually test their software with Alabama test data. Only software which has been tested and approved by the ADOR may be used for Alabama electronic filing. An Alabama ELF return will not be rejected if the return is prepared using ADOR approved software and the return meets the criteria as defined in the 2004 Alabama Error Reject Codes.

Upon request, software developers will be provided software specifications and test materials with instructions. When these software developers have successfully completed testing with the IRS, they may begin Alabama testing. The department will retrieve the state test data through the IRS Memphis Service Center, process it, evaluate it, and notify the software developers of the results, usually within 24 hours of receipt.

WHO CAN PARTICIPATE, ACCEPTANCE PROCESS

There are three (3) classifications of participants in the Federal/State Electronic Filing Program, as defined in IRS Publication 1345:

1. Electronic Return Originators (EROs)
2. Transmitters
3. Software Developers

The IRS's definition of electronic return originator, transmitter, and software developer are also applicable to the Alabama Electronic Filing Program. Acceptance into the federal program allows an electronic filer (an ERO or transmitter) automatic acceptance into the Alabama Electronic Filing Program.

EROs accepted into the Alabama Electronic Filing Program serve as agents of the ADOR for the origination of Alabama electronic returns and the retention of the non-electronic Alabama return data.

Those who wish to participate in the Federal/State Electronic Filing Program must first apply to the IRS by submitting Form 8633, Application to Participate in the Electronic Filing Program. IRS Publication 1345 specifies the application process and requirements for federal participation.

Although no separate application form is necessary for the Alabama Electronic Filing Program, electronic return originators, transmitters, and software developers must indicate on Form 8633 that they expect to transmit returns. The IRS will provide the ADOR with an electronic file of accepted EROs and transmitters.

The Electronic Filing Identification Number (EFIN) and the Electronic Transmitter Identification Number (ETIN) are assigned to EROs and electronic transmitters by the IRS. The ADOR will use the IRS-assigned EFINs and ETINs to identify EROs and electronic transmitters in the administration of the Alabama Electronic Filing Program.

Software developers must obtain annual approval of their software from the ADOR.

RIGHT TO REVOKE ACCEPTANCE AND APPROVAL

The Alabama Department of Revenue reserves the right to revoke the acceptance of an ERO or transmitter for cause. Furthermore, the ADOR reserves the right to revoke the approval of any software developer for cause. Failure to comply with the guidelines set forth in the Alabama Handbook for Electronic Filers of Individual Income Tax Returns (Tax Year 2004) and in Electronic Return Record Layouts for Alabama Individual Income Tax Returns (Tax Year 2004) is considered just cause.

The following may result in the revocation of a participant's acceptance into the program:

- (1) Conviction of a criminal offense under the revenue laws of any state, or of any offense involving dishonesty, or breach of trust.
- (2) Failure to file timely and accurate tax returns, both personal and business.
- (3) Failure to pay personal tax liabilities or business tax liabilities.
- (4) Suspension or rejection from the program in a prior year if corrective action is not taken and approved by the Alabama Department of Revenue.
- (5) Other facts or conduct of a disreputable nature that would reflect adversely on the program.
- (6) Unethical practices in return preparation.
- (7) Suspension by IRS.

- Applicants and participants may inquire about filing and paying any outstanding personal and business taxes by contacting the **Alabama Department of Revenue ERO Help Desk** for assistance at **(334) 353-9497**.

RANDOM MONITORING VISITS

- EROs serve as agents of the ADOR for the origination of Alabama electronic returns and the retention of the non-electronic Alabama return data, and the ADOR will conduct random monitoring visits with EROs in order to verify compliance with the requirements of the Alabama Electronic Filing Program. **Failure to comply with Administrative Rule 810-3-27-.09 - .10 "Mandatory E-File" may also lead to a random monitoring visit.**

ALABAMA EXCLUSIONS

The following state returns are excluded from the Alabama E – File Program:

Alabama returns with more than **10 dependents** are excluded for the 2004 tax year.

- Alabama Schedule D: Alabama can accommodate for **20 occurrences** of the Alabama **Schedule D (400 transactions)**. The return cannot be electronically filed if there are more than **20 occurrences** of the **Alabama Schedule D**.

Alabama Schedule E: Alabama can accommodate for **15 occurrences** of the Alabama Schedule E. A return requiring more than **15** cannot be electronically filed.

2106/2106-EZ: Alabama can accommodate for 2 (two) 2106 EZs and 2 (two) 2106's. **One per taxpayer per return.**

AL will accommodate for **7 occurrences** of the Federal Schedule C, C-EZ. An AL return with more than 7 Federal Schedule C's cannot be filed electronically. **Note: only one Schedule C-EZ per taxpayer can be transmitted per return.**

Alabama will not allow for more than **20 W-2s** to be electronically transmitted. If there are **more than 20 W-2s** the Alabama return cannot be electronically filed.

Alabama **DOES NOT** support Part Year ELF Returns.

AL Withholding from K-1's and /or 1099INT **disallows** the ELF return.

Form 40X, Amended Alabama Individual Income Tax Return.

Prior year returns - any return not for tax year 2004.

Non-calendar year filers.

Non-residents - Form 40NR.

Form 40A.

Foreign Address Returns.

'SO' State – Only Amended returns.

Deceased taxpayers or any Federal return containing the Federal 1310.

Form 40, Page 1, Line 19 - Credits: If a taxpayer must claim a credit for the Basic Skills Education Credit, the Coal Credit, the Rural Physician Credit, the Capital Credit, or the Alabama Enterprise Zone Act Credit, the taxpayer cannot file the return electronically for 2004.

- **NOTE: THE NOL EXCLUSION HAS BEEN REMOVED FROM THE AL E-FILE PROGRAM.**

TRANSMITTING THE ALABAMA ELECTRONIC RETURN

The Alabama electronic return will be transmitted with the federal return to the IRS Memphis Service Center. The transmitter must comply with all electronic transmitting procedures, communications requirements, and technical specifications required by the IRS, as defined in IRS Publication 1345.

Participants in the Federal/State Electronic Filing Program should confirm with their software developers and direct transmitters that the software can process and transmit the state data along with the federal data to the Memphis Service Center.

TRANSMITTING THE ALABAMA RETURN USING THE ‘SO’ STATE-ONLY OPTION

➤ State-Only Filing IS:

A method to file a State Tax return through the current Fed/State system. The state return will contain all the States generic and unformatted data (States Forms and Schedules). It will be transmitted with a “dummy” Federal return (1040 Page 1 record) to allow it to pass through the Fed/State system. The IRS will send a Federal acknowledgement for transmission of the State-Only return.

Return types that can be transmitted through the Fed/State system as a State-Only return include:

1. Previously rejected Alabama E- File return.
2. Multiple state returns for one taxpayer, each to go the respective state.
3. Married filing separately with Alabama and filing a joint federal return.

➤ State-Only Filing is NOT:

1. Going to be batched separately from the Fed/State (piggyback) returns.
2. Technically a method for transmitting Amended returns. Alabama will reject the ‘SO’ return if an amended return is attempted.
3. A method for the “piggybacking” of State data. Only one State packet per return will be allowed.

Your software vendor will incorporate the ‘SO’ option into your software.

REJECTION BY THE MEMPHIS SERVICE CENTER

The IRS will identify certain conditions in the federal and state return data that will cause rejection when the return data is received and will provide a rejection code in the acknowledgment record. IRS Publication 1345 "Filing Season Supplement" provides a list of all reject codes, including those applicable to the state data.

Repeated rejection of transmissions can cause the IRS to rescind the electronic filing privileges of an electronic filer.

REJECTION BY ADOR

- **The Internal Revenue Service (IRS) shall provide State Acknowledgement service on its Front End Processing System, known as EMS (Electronic Management System). Alabama will send their State Acknowledgements to EMS for trading partners to pick up when they pick up their Federal Acknowledgement.**

Transmitters must contact the State regarding rejections, taxpayer problems or any other questions that may arise about the state acknowledgement.

An Alabama ELF return will not be rejected if the return is prepared using ADOR approved software and the return meets the criteria as defined in the 2004 Alabama Error Reject Codes. All accepted Alabama electronic returns (meaning those received and not rejected), will be processed.

Rejection of the filing will be indicated with an "R" in the **IRS-Alabama Acknowledgement Record File**. Each rejected return will contain a specific Alabama error code. The error code is a three position numeric field located in the **IRS-Alabama Acknowledgement Record File**. For example: (050, 085, 135, etc). The error reject code will specifically define the problem with the Alabama ELF Return. Most software developers will provide you, the ERO, with a list of the Alabama Error Reject Codes. The Alabama Error Reject Codes can also be found on our website at the following url link: <http://www.ador.state.al.us/incometax/efilemain.htm>

If rejected by Alabama, the transmitter can correct the error and then retransmit the Alabama return using the IRS "SO" State – Only option. The AL40 can be retransmitted indefinitely until the return is accepted by Alabama. Your software vendor will incorporate the 'SO' option into your software.

Acceptance of the filing will be indicated with an "A" in the in the **IRS- Alabama Acknowledgement Record File**.

- **Note: The IRS will be "shutting-down the Memphis Service Center in July, 2005. All direct transmitters will be required to transmit returns thereafter to the Kansas City Service Center.**

IRS/AL ACKNOWLEDGMENTS

Purpose of the Alabama Acknowledgment System: The Alabama Acknowledgment System is designed to inform transmitters that the Alabama return data packet has been retrieved from the IRS, and whether the filing is accepted or rejected.

The Alabama acknowledgment record does not indicate acceptance of the return as filed, nor does it guarantee that a refund for the requested amount will be issued.

Software developers will provide the Fed/AL acknowledgment retrieval service as a part of their software package. If you are a direct transmitter, and the software developer you deal with provides the service, then a separate account with the IRS is not necessary. Please check with your software developer before contacting the IRS.

State Acknowledgements (State ACKS)

- **The IRS State Acknowledgement file will be implemented in January 2005. The Internal Revenue Service will provide State Acknowledgement service on its Front End Processing System known as EMS (Electronic Management System). EMS will process, validate, and route the files for the Trading Partner to pick up when they pick up their Federal Acknowledgement. The State will transmit Acknowledgement files to EMS; an outer TRANA, an outer TRANB, at least one inner TRANB, and at least one ACK Key Record. It may contain zero or multiple ACK Error Records, at least one inner RECAP, and an outer RECAP.**
- **States are scheduled to test the State Acknowledgement on November 1, 2004.**
- **Note: The IRS will be “shutting-down the Memphis Service Center in July, 2005. All direct transmitters will be required to transmit thereafter to the Kansas City Service Center.**

Under normal processing conditions, Alabama acknowledgments are posted on a daily basis, upon return retrieval from the IRS. Transmitters who transmit for electronic return originators must notify the EROs of the Alabama acknowledgment within one day of receipt.

Contact **Tavares Mathews at (334) 353-9497** for more information about the **Alabama/Federal Acknowledgment System** or if Alabama acknowledgments are not received within **five** days.

ERROR RESOLUTION FOR ALABAMA ELECTRONIC RETURNS

Although the error rate is very low for electronic returns, a few errors may be identified on Alabama returns when they enter the tax processing system at the ADOR. Returns prepared with software that is not approved by the ADOR will be rejected. Returns with errors will be rejected (AL Error Reject Codes), but can be corrected and retransmitted as a ‘SO’ State-Only return. Some errors that may be identified are duplicate returns, omission of required data, duplicate social security numbers, and computation errors.

Unless authorized by the taxpayer to discuss the return with the preparer (see the 2004 Alabama Form AL8453), the ADOR will communicate directly with the taxpayer if additional information is needed to correct a return. EROs and transmitters will only be given limited information about the tax return, pursuant to the limited disclosure statement on Alabama Form AL8453, including acknowledgment of receipt by the ADOR through the IRS, the reason for any processing or refund delay, and the date the refund check is released.

REFUND ANTICIPATION LOANS

The Alabama Department of Revenue neither supports nor prohibits Refund Anticipation Loans (RALs). Filing an electronic return that indicates a refund is due does not guarantee a refund will be issued.

REFUND/RETURN PROBLEMS

Taxpayers are advised to confirm acknowledgment of their Alabama returns with their ERO or transmitter, and are advised to wait at **least twelve weeks** from the date of acknowledgment before calling or writing the ADOR to inquire about the status of a refund check.

If a taxpayer and/or spouse owes money to the **ADOR, another State agency or the IRS** the amount owed may be deducted from the refund. Payment of the debt will delay the processing of the taxpayer's refund because all claims against the refund must be resolved before a refund check can be processed. The same policy applies to paper returns.

ERO HELP DESK

The Alabama Department of Revenue operates a Help Desk for EROs and transmitters to ensure the prompt resolution of processing problems.

The operating hours will be Monday through Friday, **8:00 AM to 4:30 PM. CST** except holidays. The **Help Desk telephone number, (334) 353-9497**, is to be used exclusively by electronic return originators.

The ERO Help Desk number should not be provided to your clients. To do so will only hinder the quality of service the Alabama ERO Help Desk can provide EROs.

ALABAMA REFUND HOTLINE

The Alabama Refund Hotline number is **(334) 353-2540**. The Refund Hotline is a simple, easy way for your clients to check on their Alabama income tax refund. To access the hotline, all the taxpayer needs is a touch tone phone, and a copy of their current year tax return. Please share the Refund Hotline number with your clients. **Your clients can now check on the status of their refund by visiting our ADOR website using the following url link:**
www.ador.state.al.us/indi.html.

PAYMENT OF REFUNDS

DIRECT DEPOSIT - PAPER CHECK – APPLIED TO NEXT YEAR'S TAXES

Taxpayers can elect to have their overpaid taxes applied to next year's taxes, issued in the form of a paper refund check, or directly deposited into their financial institution. The ADOR neither guarantees a specific date a refund will be deposited into a taxpayer's financial institution account nor issues written notices to a taxpayer to confirm direct deposit.

An Electronic Return Originator must follow the same rules and guidelines for the Alabama Direct Deposit as specified in the IRS handbook for Electronic Filing (Publication 1346), under Refunds and Direct Deposit.

The ADOR will make every attempt to process a direct deposit. However, if a direct deposit cannot be properly completed, a paper check will be issued.

RESPONSIBILITIES OF EROs

EROs and transmitters must maintain a high degree of integrity, compliance, and accuracy to continue participation in the Alabama Electronic Filing Program.

Compliance: All EROs and transmitters must comply with the requirements and specifications set forth in IRS publication 1345 and this handbook. Persons or firms not meeting these requirements are subject to having their acceptance into the program revoked. Should an ERO decide to no longer remain in the business, the ADOR must be notified, in order to, determine the proper resolution of electronic filing program documents and records.

Timeliness of Filing: EROs must ensure that electronic returns are filed in a timely manner. The transmission date of an Alabama electronic return will be considered the filing date for the return.

Deadline for Filing: The ADOR will accept electronically filed Alabama individual income tax returns which have been submitted for transmission to the Internal Revenue Memphis Service Center (MSC) through October 15, 2005. Any Alabama returns submitted after October 15, 2005, must be filed as paper documents.

Changes to the Returns: If the ERO or taxpayer wishes to make any changes after the electronically filed return has been accepted, the taxpayer must file an amended paper return on Alabama Form 40X. The taxpayer should ensure that the original electronic return has been processed before filing the amended return.

Responsibility to Clients: EROs have been entrusted with the task of filing a client's tax return and must assume the responsibility of ensuring that the return arrives at the Alabama Department of Revenue. In the event that the electronic Alabama return fails to arrive at its destination, EROs must notify their clients of the requirement to file a paper return.

ALABAMA FORM AL8453

ALABAMA FORM AL8453 - INSTRUCTIONS

NOTE: DO NOT MAIL THE ALABAMA SIGNATURE DOCUMENT TO THE ALABAMA DEPARTMENT OF REVENUE!

The Alabama Form AL8453 is to be retained by the ERO for a period of three years from the due date of the return or the date it is filed, whichever is later. Again, **Do Not Mail the AL8453 to the Alabama Department of Revenue!**

EROs serving as agents of the ADOR are required to retain the original Form AL8453 for a period of three years from the due date of the return or the date the return was filed, whichever is later. Transmission of the Alabama electronic return by the ERO is an attestation by the ERO that the Form AL8453 has been properly prepared and is being retained by the ERO.

Certain occasions may arise where the original Form AL8453 is required by the ADOR. If the need arises, the ADOR will request the document in writing and the ERO will provide the original Form AL8453 within five working days of the request.

If for any reason the ERO ceases his/her business, all Form AL8453's and Wage and Tax Statements (W-2s) currently maintained by the ERO must be forwarded to the ADOR - contact the **Alabama ERO Help Desk at (334) 353-9497**. Responsibility for the Alabama Forms AL8453 can be transferred to another ERO upon receiving written approval from the Department.

The ERO, if also the paid preparer must provide the taxpayer with a copy of the Alabama return, including the Form AL8453. Otherwise, the ERO must provide the taxpayer only with a copy of the completed Form AL8453.

ALABAMA FORM AL8453 - INSTRUCTIONS

(continued)

PREPARATION OF FORM AL8453

Declaration Control Number (DCN): The DCN is usually printed on the Alabama Form AL8453 by tax preparation software. If not, enter the IRS DCN for the return in the appropriate boxes at the top left hand portion of the document.

Label: If the taxpayer receives a mailing label from the Alabama Department of Revenue, the ERO should attach the label to the name/address portion of Form AL8453. Any necessary corrections should be made on the label.

Part I - Tax Return Information

Enter the information as requested from the Alabama Individual Income Return. Use only whole dollar amounts.

Part II – Direct Deposit of Refunds

Part II – Enrollment in direct deposit is voluntary and applies only to the current year. Taxpayers who want their refunds directly deposited into their bank or financial institution must complete Part II before transmitting the return. The ADOR and Regions Bank will not honor request completed after transmission of the return. Likewise, the ADOR and Regions Bank are not responsible when a bank or financial institution rejects the direct deposit due to an error in the routing number or account number. Taxpayers who are unsure of their routing number and/or account number should contact their bank or financial institution for assistance.

If the direct deposit is rejected, a paper check will be issued. Neither Regions Bank nor the ADOR will notify the taxpayer of a rejected direct deposit.

Line 1 – The routing number must be nine digits and begin with 01 through 12 or 21 through 32.

Line 2 - The account number can be up to 17 characters (both numbers and letters). Include hyphens but omit spaces and special symbols. If fewer than 17 characters, enter the number from left to right and leave the unused boxes blank.

Line 3 – Check the appropriate box that indicates the taxpayer's choice for direct deposit. Either checking or saving, but not both.

Part III - Declaration of Taxpayer

After the return has been prepared and before the return is transmitted electronically, the taxpayer (and spouse, if a joint return) must verify the information on the return and sign and date the completed Form AL8453. **Blank Form AL8453s must not be signed by taxpayers.** The ERO, if also the paid preparer must provide the taxpayer with a copy of the Alabama return, including the Form AL8453. Otherwise, the ERO must provide the taxpayer only with a copy of the completed Form AL8453.

ALABAMA FORM AL8453 - INSTRUCTIONS

(continued)

The taxpayers' signature in Part III authorizes the Alabama Department of Revenue to disclose to the ERO and/or the transmitter reasons for a delay in the processing of the return or the date the refund was issued. The taxpayer may elect to authorize the ADOR to discuss the taxpayer's return and attachments with the preparer of the tax return. The taxpayer makes the election for Alabama electronic returns by checking the box in Part III of the Form AL8453.

Part IV - Declaration of Electronic Return Originator (ERO) and Paid Preparer

EROs and paid preparers (if different from the ERO) are required to furnish all information requested in Part IV of Form AL8453. The federal employer identification number may be provided in lieu of the electronic return originator's or paid preparer's social security number. When the ERO is not the paid preparer, if the taxpayer is unable to obtain the paid preparer's signature on the Alabama Form AL8453 a copy of the appropriate pages of the paper return with the paid preparer's signature must be retained with the Form AL8453.

FAILURE TO COMPLY

Failure to properly complete and retain AL8453s can cause an ERO's acceptance in the Alabama Electronic Filing Program to be revoked.

CORRECTION TO FORM AL8453

If the ERO makes changes to the electronic return after the taxpayer has signed Form AL8453 but before the data has been transmitted, the ERO must require the taxpayer to complete a corrected Form AL8453, if the following conditions apply:

1. Alabama taxable income changes by more than \$500.
2. State refund changes by more than \$25.

Non-substantive changes are permissible on Form AL8453, provided the ERO or the person making the correction initials the change. Non-substantive changes are limited to corrections within the above tolerances for arithmetic errors, transposition errors, misplaced entries and spelling errors.

REGULATIONS FOR THE ALABAMA ELECTRONIC FILING PROGRAM

810-3-27-.04 Participation in the Federal/State Electronic Filing Program

810-3-27-.05 Requirements for the Alabama Electronic Individual Income Tax Return

810-3-27-.06 Requirements for the Individual Income Tax Declaration for Electronic Filing

810-3-27-.07 Requirements for Electronic Filing Software

810-3-27-.08 Acceptance into the Alabama Electronic Filing Program, Monitoring, and Revocation of Acceptance into the Program

810-3-27-.04 Participation in the Federal/State Electronic Filing Program.

- (1) The Department will participate with the Internal Revenue Service in the Federal/State Electronic Filing Program for the joint electronic filing of individual income tax returns, effective for tax year 1997.
- (2) The requirements of the Alabama Electronic Filing Program for electronic return originators and transmitters are stated in the Alabama Handbook for Electronic Filers of Individual Income Tax Returns, which is issued on an annual basis by the Department.

810-3-27-.05 Requirements for the Alabama Electronic Individual Income Tax Return.

- (1) A complete Alabama electronic individual income tax return will consist of data transmitted electronically and supporting paper documents. A complete Alabama electronic return must contain the same information as a comparable Alabama return as if filed entirely on paper.
- (2) The transmission date of an Alabama electronic individual income tax return will be used to determine timely filing of an electronic return in the same manner that the postmarked date is used to determine timely filing of a paper Alabama individual income tax return.

810-3-27-.06 Requirements for the Individual Income Tax Declaration for Electronic Filing.

- (1) The Individual Income Tax Declaration for Electronic Filing requires the following information:
 - (a) The Declaration Control Number of the electronic return.
 - (b) The taxpayer's first name, middle initial and last name.
 - (c) The taxpayer's social security number.
 - (d) If a joint return, the spouse's first name, middle initial, last name and social security number.
 - (e) The taxpayer's address.
 - (f) The Alabama taxable income reported by the electronic return.
 - (g) The net tax liability reported by the electronic return, which is computed by adding the net tax due Alabama to the voluntary contributions to the Alabama Election Campaign Fund and the Neighbors Helping Neighbors Fund.
 - (h) The total tax payments reported by the electronic return.
 - (i) The amount of the refund reported by the electronic return.
 - (j) The signature of the taxpayer and date of the signature.
 - (k) If a joint return, the signature of the spouse and date of the signature.
 - (l) The signature of the electronic return originator and date of the signature.
 - (m) An indication whether the electronic return originator is self-employed.
 - (n) The firm name of the electronic return originator.
 - (o) The address, including the zip code, of the electronic return originator.
 - (p) The federal employer identification number of the electronic return originator.

- (q) If the paid preparer is different from the electronic return originator, the following information is required:
 - 1. The signature of the paid preparer and date of the signature.
 - 2. An indication whether the paid preparer is self-employed.
 - 3. The firm name of the paid preparer.
 - 4. The address, including the zip code, of the paid preparer.
- (2) The signatures of the taxpayer(s), the electronic return originator, and the paid preparer (if the paid preparer is different from the electronic return originator) must be affixed to the Alabama Form AL8453 - Individual Income Tax Declaration for Electronic Filing before the return is electronically transmitted.
- (a) Members of the firm or designated employees may sign for the electronic return originator.
- (b) If the taxpayer is unable to obtain the paid preparer's signature on the Alabama Form AL8453, in lieu of the paid preparer's signature the electronic return originator may attach to the Alabama Form AL8453 a copy of the appropriate pages of the paper return with the paid preparer's signature.
- (c) Electronic return originators and electronic return preparers are prohibited from allowing taxpayers to sign blank Alabama Forms AL8453.
- (3) The completed and signed Alabama Form AL8453 will serve as the filing declaration for the electronic Alabama individual income tax return.
- (4) The completed and signed Alabama Form AL8453, and the state copies of wage and tax statements (Forms W-2, W-2G, and 1099R), must be retained by the electronic return originator for a period of three years from the due date of the return or three years from the date the return was filed, whichever is later.
- (5) Electronic transmission of the Alabama individual income tax return by the electronic return originator is an attestation by the electronic return originator that a properly completed and properly signed Alabama Form AL8453 is being retained on file by the electronic return originator.
- (6) The electronic return originator will provide the Department with the original Alabama Form AL8453 and the related wage and tax statements within five business days of receiving a written request for the documents from the Department.

- (7) In the event that the electronic return originator ceases operations, the electronic return originator is responsible for contacting the Department and transferring to the Department all of the original Alabama Forms AL8453 along with the related wage and tax statements. Responsibility for the Alabama Forms AL8453 can be transferred to another electronic return originator upon receiving written approval from the Department.
- (8) Nonprofit, volunteer tax preparation organizations such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) can elect, upon receiving written approval from the Department, to transfer all of the organization's original Alabama Forms AL8453 to the Department. The documents must be submitted to the Department in Declaration Control Number order.

810-3-27-.07 Requirements for Electronic Filing Software.

- (1) Record layouts and specifications for a complete Alabama electronic individual income tax return are issued annually by the Department in Electronic Return Record Layouts - Alabama Individual Income Tax Returns.
- (2) Software developers are required to obtain prior approval from the Department by submitting for testing sample Alabama electronic individual income tax returns prepared by and transmitted by their software products.
- (3) Software developer testing will occur in conjunction with IRS testing in accordance with IRS Publication 1436, Test Package for Electronic Filing of Individual Income Tax Returns.
- (4) Alabama electronic individual income tax returns received by the Department which are prepared by software which has not completed the Department's software developer testing and which has not been approved by the Department will be rejected by the Department. Paper Alabama individual income tax returns must then be submitted by the taxpayers.

810-3-27-.08 Acceptance into the Alabama Electronic Filing Program, Monitoring, and Revocation of Acceptance into the Program.

- (1) Electronic return originators and transmitters accepted by and in good standing with the Federal Electronic Filing Program are automatically accepted into the Alabama Electronic Filing Program.
- (2) Electronic return originators and transmitters accepted into the Alabama Electronic Filing Program serve as agents of the Alabama Department of Revenue, and must comply with the requirements of the program as stated in the Alabama Handbook for Electronic Filers of Individual Income Tax Returns.
- (3) The Alabama Department of Revenue will conduct random monitoring visits with Electronic Return Originators and Transmitters to verify that the requirements of the Alabama Electronic Filing Program are being met.
- (4) The Alabama Department of Revenue reserves the right to revoke the acceptance of an electronic return originator or transmitter for cause. Failure to comply with the guidelines set forth in the Alabama Handbook for Electronic Filers of Individual Income Tax Returns is considered just cause.
- (5) Any of the following can result in the revocation of an electronic return originator's or transmitter's acceptance into the program:
 - (a) Conviction of a criminal offense under the revenue laws of any state or of any offense involving dishonesty, or breach of trust.
 - (b) Failure to file timely and accurate tax returns, both personal and business.
 - (c) Failure to pay personal tax liabilities or business tax liabilities.
 - (d) Failure or refusal to effect corrective action as required by the Alabama Department of Revenue.
 - (e) Other facts or conduct of a disreputable nature that would reflect adversely on the Alabama Electronic Filing Program.
 - (f) Unethical practices in return preparation.
 - (g) Suspension by IRS.

Author : Ed Cutter
Authority: Sections 40-2A-7(a)(5) and 40-30-6, Code of Alabama 1975
History: New rule filed April 23, 1998, effective date May 28, 1998.

➤ **810-3-27-.09 Alabama Requirements for *Mandatory E-File* of Original Individual Income Tax Returns**

(1) (a) If an income tax return preparer prepares 250 or more acceptable individual income tax returns using tax preparation software in calendar year 2004, and 100 or more acceptable individual income tax returns using tax preparation software in calendar year 2005, then for the calendar year 2005 all acceptable individual income tax returns prepared by that income tax preparer shall be filed using electronic technology, as defined in Sections 40-2A-7(a)(5) and 40-30-6, Code of Alabama 1975.

(b) If an income tax return preparer prepares 50 or more acceptable individual income tax returns using tax preparation software in calendar year 2006, then for that calendar year and for each subsequent calendar year thereafter, all acceptable individual income tax returns prepared by that income tax preparer shall be filed using electronic technology, as defined in Sections 40-2A-7(a)(5) and 40-30-6, Code of Alabama 1975.

(2) For purposes of this rule, the following definitions apply:

(a) "Income tax preparer" means a person that meets both the following:

1. Any person that prepares an Alabama Individual Income Tax Return in exchange for compensation.

2. And any person who employs another person to prepare, in exchange for compensation, any current year Alabama Individual Income Tax Return.

(b) "Original individual income tax return" means any return that is required, to be made with respect to the tax imposed as defined by Section 40-18-2, Code of Alabama 1975. For purposes of subdivision (a), a "timely" original individual tax return means any original individual tax return that is filed, without regard to extensions, during the calendar year for which that tax return is required to be filed.

(c) "Acceptable individual income tax return" means any original individual tax return that is authorized by the Department to be filed using electronic technology as defined in Section 40-30-6, Code of Alabama 1975.

(d) "Tax preparation software" means any computer software program intended for accounting, tax return preparation, or tax compliance.

(3) Paragraph (1)(a) shall cease to apply to an income tax preparer if, during the 2004 calendar year, the income tax preparer prepared no more than 75 original individual income tax returns and during the 2005 calendar year and all subsequent years, the income tax preparer prepared no more than 50 original individual income tax returns.

(a) Paragraph (1)(a) of this rule, applies to acceptable individual income tax returns required to be filed for taxable years beginning on and after January 1, 2004.

(b) Paragraph (1)(a) of this rule, may not be interpreted to require electronic filing of acceptable individual income tax returns that are required to be filed on or before January 1, 2004.

Author: Buddy Bray, Richard Henninger, Kathleen Campbell

Authority: Sections 40-2A-7(a)(5), 40-18-40, and 40-30-1 through 6, Code of Alabama 1975

History: New rule: Filed June 4, 2004, effective July 9, 2004.

➤ **810-3-27-.10 Alabama Requirements for Compliance with Administrative Rule 810-3-27-.09.**

(1) An income tax preparer may be subject to a random audit for each acceptable original individual income tax return prepared by that income tax preparer that is not electronically filed, unless it is shown that failure to electronically file that acceptable original individual income tax return is due to reasonable cause and not due to willful neglect.

(2) For purposes of this rule, reasonable cause includes, but is not limited to:

(a) A taxpayer's election not to electronically file an acceptable original individual income tax return by filing a signed paper original individual income tax return.

(b) Any electronically prepared original individual income tax return that cannot be filed or transmitted electronically by the tax preparer, or any original individual income tax return that cannot be accepted by the Department.

(3) Any original individual income tax return prepared, including those not electronically filed due to "reasonable cause", as indicated in subparagraphs (a) and (b) of this rule, will be included in the total mandate return count as defined in 810-3-27-.09.

Author: Buddy Bray, Richard Henninger, Kathleen Campbell
Authority: Sections 40-2A-7(a)(5), 40-18-40, and 40-30-1 through 6, Code of Alabama 1975
History: New rule: Filed June 4, 2004, **effective July 9, 2004.**

Frequently Asked Questions

Individual Income Tax Mandatory E-File

Regulations **810-3-27-.09** and **810-3-27.10** were approved by the Alabama Department of Revenue's Research Division and became effective **July 9th, 2004**. These new regulations contain a provision making E-File mandatory for returns prepared by certain tax practitioners. The mandate requirements for tax preparers will be "phased" in over a 3 year period starting **January 1, 2004**. The economic necessity of this new individual income tax E-File mandate will reduce tax return processing costs for the state. The following list of questions and answers may be helpful to you regarding the mandatory E-File regulations.

1. Where can I read more about Administrative Regulations 810-3-27-.09 and 810-3-27.10?

You can view the new regulations at:

<http://www.ador.state.al.us/incometax/elfmandregs.html>.

2. Why is E-File being made mandatory for tax preparers?

By making E-File mandatory, we can significantly reduce the cost of processing tax returns. (During the second year of implementation, we anticipate in excess of 300,000 additional E-File returns.)

3. Who must E-File tax returns under these regulations?

Tax preparers who prepared 250 or more Alabama individual income tax returns for the taxable year that began on January 1, 2004; prepare 100 or more returns using tax preparation software for the taxable year that begins on January 1, 2005; and those who prepare more than 50 returns for the taxable year that begins on January 1, 2006, will be required to E-File all of their current year individual returns.

4. What types of returns must be E-Filed under the mandatory Regulations?

All current year individual income tax returns are required to be E-Filed.

5. If I reside or have an office outside Alabama, am I still subject to the mandate?

Yes. If you meet the mandatory E-File requirements, all Alabama returns you prepare are required to be E-Filed, even if you reside or have your office(s) outside the state.

6. When will mandatory E-File take effect?

Mandatory E-File will take effect on **January 1, 2004**.

7. What if I have multiple offices that each file less than 250 returns?

For the purpose of these regulations, an "Income Tax Preparer" is defined as a person who prepares, in exchange for compensation, or who employs another person to prepare, in exchange for compensation, any return for the tax imposed. This means, even if a person in your employ or one of your offices files less than 250 returns, if the total of all tax returns prepared from multiple offices equals more than 250 and tax preparation software is used for one or more returns, all acceptable returns prepared are required to be E-Filed.

8. How do you plan to enforce mandatory E-File?

An income tax preparer may be subject to a random audit for each acceptable original individual income tax return prepared by that income tax preparer that is not electronically filed, unless it is shown that failure to electronically file that acceptable original individual income tax return is due to reasonable cause and not due to willful neglect.

Frequently Asked Questions

(Continued)

9. What if my client (the taxpayer) does not want their return E-Filed?

A taxpayer can make the election not to electronically file an acceptable original individual income tax return (opt-out) by filing a signed paper original individual income tax return. The original signed paper return will suffice for the “opt-out” qualifications. If your client prefers to file a paper return and has made the election to “opt-out”, that clients paper return will be included in the total mandate count as defined in 810-3-27-.09.

10. How will I prove that returns that were not E-Filed were due to reasonable cause and not willful neglect?

Reasonable cause includes, but is not limited to:

- a. A taxpayer’s election not to electronically file an acceptable original individual income tax return by filing a signed paper original individual income tax return (opt-out) will show proof the returns were filed due to reasonable cause.
- b. Any electronically prepared original individual income tax return that cannot be filed or transmitted electronically by the tax preparer, or any original individual income tax return that cannot be accepted by the Department.

Willful neglect includes, but is not limited to:

- a. Intentional failure to comply with the AL E-File mandate regulations.
- b. Lack of knowledge that the mandate exists and/or lack of understanding the regulations.

11. Does the ADOR (Alabama Department of Revenue) provide material I can give my clients to explain the new regulations?

Yes. You can access and print a copy of the regulations for the taxpayer at <http://www.ador.state.al.us/incometax/elfmandregs.html> as needed. You may wish to also download these “Frequently Asked Questions and Answers” for your clients.

12. What are the requirements for signing up for the Alabama E-File Program?

Alabama has only two requirements to be accepted as an ERO (Electronic Return Originator) in to the AL E– File Program:

- a. You must be accepted with the IRS via the 8633. Once you are approved then you are automatically accepted into the AL E-File Program. ***We do not need a copy of the Federal 8633 (Application to Participate in the IRS e-file Program).***
- b. You must use software that has been tested and approved by the State of Alabama. Contact **Tavares Mathews**, Alabama Individual Income Tax E-File Coordinator to check the status of your current software. **Please call (334) 353-9497.**

Frequently Asked Questions

(Continued)

13. I hear the IRS is behind in processing E-File applications. What do I do if I cannot get into the Alabama E-File Program on time?

If you do not receive your IRS Electronic Filer Identification Number (EFIN) in time to start e-filing returns, we recommend you file returns on paper until you become accepted in the IRS and AL E-File Program. As soon as you receive your IRS EFIN and your software has been approved by Alabama, you can begin e-filing all applicable returns.

14. What if I am denied participation in the IRS E-File Program?

We **require** you to be enrolled in the IRS E-File Program.

15. I am already approved to file Alabama returns. Do I need to re-enroll in the program for mandatory E-File?

No. If you are already accepted in the Alabama E-File Program, you do not need to apply for acceptance for the purposes of mandatory E-File.

16. Will there be a waiver process allowing me to be exempt from participation in mandatory E-File?

No. Alabama has no provisions in the regulations that allow for a preparer waiver.

17. I'm new to E-File. Where do I learn more about your E-File Program?

You can find information on our website at: <http://www.revenue.alabama.gov/incometax/efilemain.htm> or by calling our ERO Help Desk at (334) 353-9497.

18. Where can I get software to E-File?

We provide a listing of approved E-File software developers on our website:

<http://www.revenue.alabama.gov/incometax/efilemain.htm>.

You can also contact our ERO Help Desk at (334) 353-9497.

19. What are you going to do with all the money you'll save from us e-filing?

The savings generated by mandatory E-File will help reduce the state's overall budget deficit.

2004 ALABAMA ERROR REJECTION CODES

9/9/2004

- Any additions/changes/updates or deletions made to the Alabama Error Reject Codes are indicated with the symbol "=>" and highlighted in bold print.

AL Error Codes	Error Description
000	Software Developer has not been approved for the Alabama E-File Program.
005	Primary Taxpayer Last Name (Field 060 - AL Generic Record) must be present. This is a required field and must never be blank.
010	Primary Taxpayer First Name & Spouse First Name (Field 070 - AL Generic Record) must be present. This is a required field and must never be blank.
NOTE: Spouse First Name only applicable when a joint filing status is claimed.	
015	Primary Taxpayer Address (Field 075 - AL Generic Record) must be present. This is a required field and must never be blank.
020	Primary Taxpayer City (Field 085 - AL Generic Record) must be present. This is a required field and must never be blank.
025	Primary Taxpayer Zip (Field 100 - AL Generic Record) must be present. This is a required field and must never be blank.
030	Primary Taxpayer SSN (Generic Record ID) must be present. This is a required field and must never be blank.
035	If Filing Status (Field 305 - AL Generic Record) is equal to 2 (Married Filing Joint), then Spouse First Name and Initial (Field 070 - AL Generic Record) must be present and Spouse SSN (Field 055 - AL Generic Record) must be present.
040	If Filing Status (Field 305 – AL Generic Record) is equal to 3 (Married Filing Separate), then (Qualifying Person/Spouse's Last Name), (Qualifying Person /Spouse's First Name), (Qualifying Person/Spouse's SSN), (Qualifying Person/Relationship), must be present in Field 305 - AL Generic Record.

AL Error Code**Error Description**

041 If Filing Status (Field 305 – AL Generic Record) is equal to 3 (Married Filing Separate), then Spouse SSN must not be present in Generic Field 055.

045 If Filing Status Box (Field 305 - AL Generic Record) is equal to 4 (Head of Family), then (Qualifying Person/Last Name), (Qualifying Person /First Name), (Qualifying Person/SSN), (Qualifying Person/Relationship), must be present in Field 305 - AL Generic Record.

=> **050** Total Alabama Wages (Field 350 - AL Generic Record), Form 40 Pg. 1, line 6, must equal the total amount of all State Wages (including Wages Earned Out of State) as reported in **Box 16 of the NEW ELF 2004 (4) STATE WAGE AND LOCALITY Federal 1040 W-2 (State Wages 1, State Wages 2, State Wages 3 and State Wages 4). IRS Fields #'s 0390, 0460, 0515, and 0560.**

NOTE: ALABAMA WILL ACCEPT AN ELECTRONIC RETURN WITH A STATUTORY EMPLOYEE VIA A W-2 OR FEDERAL SCHEDULE C.

SPECIAL INSTRUCTIONS FOR AL ERROR CODE # 50:

NOTE: ALABAMA DOES NOT FOLLOW THE FEDERAL 1040 CRITERIA FOR SALARIES, WAGES, TIPS, ETC. (LINE 7, IRS FIELD # 0375).

THE 2004 AL40 INSTRUCTION BOOKLET FOR LINES 6A THROUGH 6D “WAGES, SALARIES, TIPS, ETC.” STATES THE FOLLOWING: “INCOME” SHOW THE AMOUNT OF WAGES YOU WERE PAID BEFORE TAXES, INSURANCE, ETC. WERE DEDUCTED. YOU SHOULD USE THE AMOUNT SHOWN IN THE BOX HEADED “STATE WAGES” ON YOUR FORM W-2.” THE AMOUNT SHOWN IN THIS BOX MAY OR MAY NOT BE THE SAME AS THE AMOUNT TAXABLE FOR FEDERAL PURPOSES. ALL OTHER TAXABLE ITEMS LISTED ON YOUR W-2 FORM THAT ARE NOT INCLUDED IN THE “STATE WAGES” BOX SHOULD BE ENTERED ON LINE 8, PART 1, PAGE 2.

THE FOLLOWING INCOME AMOUNTS AS DEFINED BY LINE 7 OF THE FEDERAL 1040 MUST NOT BE INCLUDED IN ALABAMA GENERIC FIELD 350 (WAGES, SALARIES, TIPS), AL40, PG 1, LINE 6. THE ALABAMA E-FILE PROGRAM WILL GENERATE AN ALABAMA ERROR CODE # 50 AND REJECT THE ELECTRONIC RETURN. THESE AMOUNTS SHOULD BE REPORTED ON AL40, PG. 2, PART 1, LINE 8 “OTHER INCOME”, ALABAMA UNFORMATTED RECORD, SEQ. # 095. THE DESCRIPTION OF THE ITEM, LINE 8, “STATE NATURE AND SOURCE” SHOULD BE REPORTED IN AL UNFORMATTED RECORD, SEQ. # 090.

050 (CONTINUED)

ITEMS NOT ON FORM W-2 OR FORM 1099R:

- 2. Miscellaneous Income, from Federal Form 1099-MISC**
- 2. Earned Income from Federal Form 2555 (Foreign Earned Income)**
- 3. Excess reimbursement, from Federal Form 2106**
- 4. Excess Adoption Benefits**
- 5. Forfeited Childcare Benefits from Federal Form 2441**
- 6. Excess moving expense reimbursement, from Federal Form 3903**
- 7. Wages earned as a household employee – House Hold W-2**
- 8. Sick pay or disability payments**
- 9. Wages from a Foreign Source**
- 10. Ordinary income from ESPP stock sale**
- 11. Ordinary income from incentive stock options**
- 12. Federal “Guaranteed” Payments to K-1 Partnership**
- 13. Taxable Scholarships**
- 14. Taxable tips from Federal Form 4137**

Form W-2:

- 1. Social Security Tips**
- 2. Bonuses**
- 3. Fees**
- 4. Commissions**
- 5. Allocated Tips OR tips from Federal Form 4137**
- 6. Advanced EIC payments**
- 7. Dependent Care Benefits**

AL Error Code**Error Description****050 (CONTINUED)****Form 1099R:**

- 1. Disability before minimum retirement age**
- 2. Return of contributions**

055 Reserved For Future Use**060** Other Income (Field 365 - AL Generic Record), Form 40, Pg. 1, line 8, must equal the Total Other Income (AL Seq. no. 100 - AL Unformatted Record) reported on Pg. 2, Part I, line 9, Form 40.**065** Total Income (Field 370 - AL Generic Record), Form 40, Pg. 1, line 9, must equal the sum of lines 6, 7, and 8 (Sum Fields 350, 355, and 365 - AL Generic Record).**070** Total Adjustments to Income (Field 375 - AL Generic Record), Form 40, Pg. 1, line 10, must equal the Total Adjustments (AL Seq. no 190 - AL Unformatted Record) reported on Form 40, Pg. 2, Part II, line 8.**075** Adjusted Gross Income (Field 380 - AL Generic Record), Form 40, Pg. 1, line 11, must equal line 9 less line 10 (Field 370 less 375).**080** Itemized Deductions/Standard Deduction (Field 305 - AL Generic Record), Form 40, Pg. 1, line 12. If the deductions on the return are itemized, this field must equal Total Itemized Deductions (AL Seq. no. 190 - AL Unformatted Record) reported on AL Schedule A, line 26.

=> 081 Federal Tax Liability Deduction, Form 40, Page 1, line 13 must equal the amount reported on **Federal 1040, line 56 plus line 59. Federal 1040 A, line 38 and Federal 1040 EZ, line 10. If none, enter zero amount. This amount must never be a negative figure. If negative, then enter zero amount.**

085 Itemized/Standard Deduction Flag (Field 305 - AL Generic Record): I = Itemized, S= Standard. One or the other must be present.

AL Error Code**Error Description**

- 090 Personal Exemption (Field 400 - AL Generic Record), Form 40, Pg. 1, line 14 is based on the Filing Status reported in (Field 305 - AL Generic Record), Form 40, Pg. 1, lines 1, 2, 3 or 4. The AL Personal Exemption must equal the exemption amount as defined by one of the following status exemptions:
1. Single \$1500.00
 2. Married Filing Jointly \$3000.00
 3. Married Filing Separately \$1500.00
 4. Head of Family (Household): \$3000.00
- 095 Dependent Exemption (Field 405 - AL Generic Record), Form 40, Pg. 1, line 15, must equal the Amount Allowed as reported on Form 40, Pg. 2, Part III, line 2 (AL Seq. no 450 - AL Unformatted Record).
- 100 Total Deductions (Field 410 - AL Generic Record), Form 40, Pg. 1, line 16, must equal the sum of lines 12, 13, 14, and 15 (Sum Field 385, 390, 400 and 405).
- 105 Taxable Income (Field 415 - AL Generic Record), Form 40, Pg. 1, line 17, must equal line 11 less line 16 (Field 380 less 410).

CAUTION: IF NEGATIVE DO NOT DEFAULT TO ZERO

- => 110 **Reserved For Future Use: Tax Due Flag (Field 305 - AL Generic Record), Form AL40, Pg. 1, line 18, has been deleted from the AL40.**
- => 111 **If Form AL40, Pg. 1, line 18, NOL - 85A "Check Box" equal "X", then AL Generic Field 420 must be present.**
- 115 Reserved For Future Use
- 120 Reserved For Future Use
- 125 Reserved For Future Use
- 130 **Schedule OC Credit Flag (Field 305 - AL Generic Record), Form 40, Pg. 1, line 19, must be blank. The return cannot be filed electronically and a paper return must be filed.**
- 135 Reserved For Future Use
- 140 **Less Credits amount (Field 425 – AL Generic Record) must be greater than zero if CR – Credit Flag equal "X" (Field 305 – AL Generic Record).**

AL Error Code	Error Description
=> 141	<p>If AL Sch CR, line 5 (AL Seq # 500) is present then AL Sch CR, lines 1, 2, 3, and 4 must be present. (AL Sch CR Seq #s 50, 100, 200, 300, and 400.)</p> <p>NOTE: Aggregate all Credits For Taxes Paid to Other States (if more than one) to the AL Sch CR – lines 1, 2, 3 and 4 (one occurrence). AL Sch CR Seq #s 50,100, 200, 300 and 400. The Description in line 1 (AL Seq # 50) must read “All States” . The aggregate total of all Out-of-State Credits must be reported on line 5 (AL Seq # 500) and the amount brought forward to Field 425 – AL Generic Record.</p> <p>NOTE: AL Schedule CR is located at the bottom of the AL Sch B (AL Unformatted Record).</p>
145	Net Tax Due Alabama (Field 430 - AL Generic Record), Form 40, Pg. 1, line 20a, must equal line 18 less line 19 (Field 420 less 425). If line 19 is greater than line 18, then line 20a must be blank or zero.
150	Reserved For Future Use
155	Reserved For Future Use
160	Total Tax Liability and Voluntary Contributions (Field 455 - AL Generic Record), must equal line 20a plus line 20b, 21a, 21b, 21c and 21d. (Field 430 plus 435, 440, 445, 450 and 560).
=> 165	<p>Alabama Income Tax Withheld (Field 460 - AL Generic Record), Form 40, Pg. 1, line 23, must equal the total ALABAMA Income Tax Withheld, as reported on the W-2s, W-2Gs, and 1099R's. Error Reject Code #165 will only be valid with W-2's, W-2G's and 1099R's. AL withholding from any other source document will not be included in the calculation for Error Reject Code # 165 and will be rejected.</p> <p><u>NOTE:</u> Income tax withheld for other states must not be included in this amount.</p>
170	Total Payments (Field 475 - AL Generic Record), Form 40, Pg. 1, line 26, must equal the sum of line 23, 24, and 25 (Sum Field 460, 465 and 470).
175	Amount You Owe (Field 480 - AL Generic Record), Form 40, Pg. 1, line 27, must equal line 22 less line 26 (Field 455 which exceeds 475), plus line 28 (Field 485).

AL Error Code**Error Description**

- => **180** Overpaid (Field 490 - AL Generic Record), Form 40, Pg. 1, line 29, must equal line 26 less line 22, **less line 28.** (Field 475 less 455 **less 485**).
- => **185** **Total (Donations and Application to 2005 Estimated Tax)** (Field 550 - AL Generic Record), Form 40, Pg. 1, line 32, must equal the sum of line 30, 31a, 31b, 31c, 31d, 31e, 31f, 31g, 31h, 31i, 31j and 31k. (Sum Field 495, 500, 505, 510, 515, 520, 525, 530, 535, 540, 545 and 565.)
- 190 Refunded To You (Field 555 - AL Generic Record), Form 40, Pg. 1, line 33, must equal line 29 less line 32 (Field 490 less 550).
- => **195** Business Income or (Loss) from Federal Schedule C or C-EZ, Form 40, Pg. 2, Part I, line 2 (AL Seq. no. 035 - AL Unformatted Record) must equal the AGGREGATE amount of the cumulative net profit or (loss) from line 31 of all 2004 Federal Schedule Cs, plus the cumulative net profit from line 3 of all C-EZs (IRS Field ID # 0710). **ERROR CODE #195 WILL NOT BE VALID IF FED SCH C, LINE 30, IRS FORM 8829 "EXPENSES FOR BUSINESS USE OF YOUR HOME" (IRS FIELD 0703) IS PRESENT. ANY EXCESS BUSINESS USE EXPENSES BEYOND THE FEDERAL LIMITATIONS SHOULD BE REPORTED ON AL40, PG. 2, PART 1, LINE 8 "OTHER INCOME", ALABAMA UNFORMATTED RECORD, SEQ. #095. THE DESCRIPTION OF THE ITEM, LINE 8, "STATE NATURE AND SOURCE" SHOULD BE REPORTED IN AL UNFORMATTED RECORD, SEQ. #090.**
- 200 Gain or (Loss) from Sale of Real Estate, Stocks, etc., Form 40, Pg. 2, Part I, line 3 (Alabama Schedule D) must equal the AGGREGATE amount reported as net profit or (loss) from all Alabama Schedule Ds, line 1(AL. Seq. no. 990 - AL Unformatted Record).
- 205 Rents, Royalties, Partnerships, Estates, Trusts, etc., Form 40, Pg. 2, Part I, line 6 (AL Seq.# 080) must equal the AGGREGATE amount reported as Total Income or (Loss) from all Alabama Schedule E's, line 25 (AL Seq. no. 2000 – AL Unformatted Record).
- 210 Total Other Income, Form 40, Pg. 2, Part I, line 9 (AL Seq. no. 100 - AL Unformatted Record) must equal the sum of Part I, line 1, 2, 3, 4B, 5B, 6, 7 and 8. (AL Seq. no. 030, 035, 045, 065, 075, 080, 085, and 095). This amount must be brought forward to Form 40, Pg. 1, line 8 (Field 365 - Alabama Generic Record).

AL Error Code	Error Description
215	If Other Income, Form 40, Pg. 2, Part I, line 8 (AL Seq. no. 095 – AL Unformatted Record) is present, then Other Income, Form 40, Pg. 2, Part I, line 8 (Nature and Source – Description) must be present (AL Seq. no. 090 – AL Unformatted Record).
220	Alimony Recipient Last Name, Form 40, Pg. 2, Part II, line 4 (AL Seq. no. 125 - AL Unformatted Record). If Alimony Amount Paid is present on Form 40, Pg. 2, Part II, line 4 (AL Seq. no. 155 – AL Unformatted Record), then Alimony Recipient Last Name must be present.
225	Alimony Recipient SSN, Form 40, Pg. 2, Part II, line 4 (AL Seq. no 130 – AL Unformatted Record). If Alimony Amount Paid is present on Form 40, Pg. 2, Part II, line 4 (AL Seq. no. 155 – AL Unformatted Record), then Alimony Recipient SSN must be present.
230	Reserved For Future Use
235	Moving Expenses - To State, Form 40, Pg. 2, Part II, line 6 (AL Seq. no. 170 - AL Unformatted Record). If Moving Expense Amount, Form 40, Pg. 2, Part II, line 6 (AL Seq. no. 180 – AL Unformatted Record) is present, then Moving Expenses – To State must be present and equal to “AL”.
240	Reserved For Future Use
245	Total Adjustments, Form 40 Pg. 2, Part II, line 8 (AL Seq. no. 190 – AL Unformatted Record) must be equal the sum of line 1A, 1B, 2, 3, 4, 5, 6, and 7 (AL Seq. no. 105, 110, 115, 120, 155, 160, 180 and 185 - AL Unformatted Record). This amount must be brought forward to Form 40, Pg. 1, line10 (AL Generic Record 375).
250	Amount Allowed (For Dependent Exemption), Form 40, Pg. 2, Part III, line 2 (AL Seq. no. 450 - AL Unformatted Record) must equal line Form 40, Pg. 2, Part III, line 1b (Total Number of Dependents Claimed - AL Seq. No. 445 - AL Unformatted Record) times \$300 and must be brought forward to Form 40, Pg. 1, line 15 (Field 405 - Alabama Generic Record).

AL Seq. No 445 must never be a negative figure.

- | | |
|-----|---|
| 255 | If Total Number of Dependents Claimed, Form 40, Pg. 2, Part III, line 1b (AL Seq. No. 445 - AL Unformatted Record) is present, then Dependents First Name/Last Name, Form 40, Pg. 2, Part III, line 1a (1) must be present (First Name: AL Seq no's. 195, 220, 245, 270, 295, 320, 345, 370, 395, and 420). (Last Name: AL Seq. no's. 200, 225, 250, 275, 300, 325, 350, 375, 400 and 425, respectively). |
|-----|---|

AL Error Code**Error Description**

- 260 If Total Number of Dependents Claimed, Form 40, Pg. 2, Part III, line 1b (AL Seq. No. 445 - AL Unformatted Record) is present then, Dependents Relationship, Form 40, Pg. 2, Part III, line 1a(3) must be present (AL Seq nos. 210, 235, 260, 285, 310, 335, 360, 385, 410, and 435).
- 265 If Total Number of Dependents Claimed, Form 40, Pg. 2, Part III, line 1b, (AL Seq. No. 445 - AL Unformatted Record) is present then, Dependent SSN must be present.
- 270 Residency Flag, Form 40, Pg. 2, Part IV, line 1 (AL Seq. no. 455 – AL Unformatted Record) must = F (Full Year Alabama Resident). If P (Part Year Alabama Resident), then the return cannot be filed electronically and a paper return must be filed.
- => **275 Federal Adjusted Gross Income**, Form 40, Pg 2, Part IV, Line 5 (AL Seq. no 535 - AL Unformatted Record) must equal Federal **Form 1040, Pg 1, Line 37** (FD 1040, Pg 1, Seq. 750), Form **1040A, Pg 1, Line 21** (FD 1040A, Pg 1, Seq. 750) or Form **1040-EZ, Line 4** (FD 1040-EZ, Seq. 750).
- => **280 Federal Taxable Income**, Form 40, Pg 2, Part IV, Line 5 must equal Fed **Form 1040, Pg 2, Line 42**, Fed **Form 1040A, Pg 2, Line 27** or Fed Form **1040-EZ, Line 6**.
- 285 Other Federal Income Flag, Form 40, Pg. 2, Part IV, line 6 (AL Seq. no. 540 - AL Unformatted Record). If Other Federal Income Flag box is checked with an "X", then the Source Description and Source Amount, Form 40, Pg. 2, Part IV, line 6 must be present (AL Seq. no. 550 and/or 560).
- 290 Reserved For Future Use
- 295 Reserved For Future Use
- 300 Reserved For Future Use
- 305 If Standard Deduction Box is checked, Form 40, Page 1, line 12b, (Field # 305), then Generic Field 385 must contain the following criteria:
- Single: Filing Status 1: then # 385 must never be > \$ 2000
- MFJ: Filing Status 2: then # 385 must never be > \$ 4000
- MFS: Filing Status 3: then # 385 must never be > \$ 2000
- HOF: Filing Status 4: then # 385 must never be > \$ 2000

AL Error Code**Error Description**

- => **310** If Itemized Deduction Box is checked, Form 40, line 12a, (Field # 305), then AL Sch A, line 26, (Seq. #190) **must be equal to or greater than zero.**
- 315 AL 40, Schedule A (If present), line 26 (AL Seq. #190) must equal the sum of lines 4, 9, 13, 17, 18c, 23, 24 and 25 (AL Seq. no's 045, 075, 105, 125, 140, 175, 180 and 187).
- => **320** AL 40, Schedule B, line 3 (AL Seq. #280) must equal the sum of line 1 - Interest Income and line 2 - Dividend Income (AL Seq. no's. 040, 055, 070, 085, 100, 115, 130, 145, 160, 175, 185, 195, 205, 215, 225, 235, 245, 255, 265 and 275).

NOTE: Alabama Schedule B is a required ELF form if Total Taxable Interest and Dividend Income is greater than \$1500.00.

- => **321** If AL Sch CR line 5 is present (AL Seq # 500) then AL Sch B, Seq # 280 **must be equal to or greater than zero.**

NOTE: If no AL Sch B is required in the electronic return but an AL CR must generated then zero fill the Seq #'s found in AL Error Code # 320.

325 Reserved For Future Use

330 Reserved For Future Use

335 Reserved For Future Use

340 Reserved For Future Use

345 Reserved For Future Use

350 Reserved For Future Use

- 351** If IRS Form **1099R, Box 7** (IRS Field #0190) "Distribution Code" is equal to **Code 7** and (IRS Field 0200) "IRA/SEP/SIMPLE" indicator box is checked, then AL40, Pg.2, Part 1, line 4b (AL Seq. #065) must be present. If (IRS Field # 0190) "Distribution Code" is equal to **Code G**, then **AL ERROR REJECT CODE #351 is invalid and will be ignored.**

- 352** If IRS Form 1099R, Box 1 or 2a "1 Gross Distribution – 2a Taxable Amount" is present (IRS Field Codes # 0110 and # 0120), then Box 7 (IRS Field Code # 0190) must be present.

AL Error Code**Error Description**

- 355 Consumer Use Tax, Form AL 40, Pg. 1, line 20b (AL Generic Field no. 435) must never be a negative number.
- => 356 If AL40, Sch B "Interest and Dividend income" is **greater than \$1500.00**, then AL40, Sch B, Line 3 (AL Seq. # 280) must be present and equal to AL40, Page 1, line 7 (AL Seq. #355).
- 900 Duplicate Return on File For SSN/TAXYR. An electronic return is already on file for this taxpayer. **The return is being processed by ADOR and no further action is required.**

ALABAMA DEPARTMENT OF REVENUE

Computation of Net Operating Loss

Loss Year Ending _____, _____

Name(s) as shown on Form 40, or 40NR

Your Social Security Number

PURPOSE OF SCHEDULE. Form NOL-85 is designed to determine the actual **net operating loss** sustained in the loss year that may be carried back or carried forward. Before preparing this form, the loss year return **must** first be completed through the taxable income line. See instructions on the reverse side for further information.

PART I – Excess of Nonbusiness Deductions Over Nonbusiness Income

NONBUSINESS DEDUCTIONS:

1(a)	Federal income tax claimed as a deduction on the loss year return.	1a		
(b)	Loss on sale of nonbusiness assets.	1b		
(c)	Payments to Individual Retirement Arrangement (IRA), Keogh retirement plan, or SEP plan.	1c		
(d)	Penalty on early withdrawal of savings (Form 40 only).	1d		
(e)	Alimony paid.	1e		
(f)	Adoption expenses.	1f		
(g)	Self employed health insurance deduction from Page 2, Part II of Form 40 or 40NR.	1g		
(h)	Other (explain) _____	1h		
2(a)	Enter the Standard Deduction claimed on return. (Skip lines 2b, 3a-b, 4, and 5)	2a		
(b)	Enter the Total Itemized Deductions claimed on Schedule A	2b		
LESS BUSINESS DEDUCTIONS:				
3(a)	Casualty or theft loss claimed on Schedule A	3a		
(b)	Other miscellaneous business deductions	3b		
4	Total Adjustments to Schedule A. Add lines 3a and 3b	4		
5	TOTAL NONBUSINESS ITEMIZED DEDUCTIONS. Subtract line 4 from line 2b	5		
6	TOTAL NONBUSINESS DEDUCTIONS. Add lines 1a through 2a and 5	6		

NONBUSINESS INCOME:

7(a)	Interest and Dividend Income (Form 40 only)	7a		
(b)	Gain on sale of nonbusiness assets	7b		
(c)	Federal income tax refunds reported on loss year return (Form 40 only)	7c		
(d)	Taxable distributions from pensions, annuities, IRAs or other retirement plans (Form 40 only)	7d		
(e)	Alimony received (Form 40 only)	7e		
(f)	Trust and/or Estate income from Schedule E	7f		
(g)	Other (explain) _____ On line 7(g) include items such as director's fees, royalty income, gambling income, prizes, awards, etc.	7g		
8	TOTAL NONBUSINESS INCOME. Add lines 7a through 7g	8		
9	EXCESS NONBUSINESS DEDUCTIONS OVER NONBUSINESS INCOME. If line 6 exceeds line 8, subtract line 8 from line 6. Enter the result here and on line 5, Part II below. If line 8 exceeds line 6, enter -0- here and also on line 5, Part II below.	9		

PART II – Computation of Net Operating Loss

1	Enter the Taxable Income from Form 40 or Form 40NR	1	()
Modifications – (enter all amounts on lines 2 through 6 below as positive amounts)					
2	Net Operating Loss claimed on the loss year return (if any)	2			
3	Personal exemption claimed on the loss year return	3			
4	Dependent exemption claimed on the loss year return	4			
5	Enter the Excess Nonbusiness Deductions Over Nonbusiness Income from line 9, Part I above	5			
6	TOTAL MODIFICATIONS. Add lines 2, 3, 4, and 5	6			
7	NET-OPERATING LOSS ALLOWABLE. Combine lines 1 and 6. If the result is a negative figure, enter here. If zero or a positive figure – STOP – DO NOT FILE THIS FORM. You DO NOT have a net operating loss	7			

PART III – Election to Forfeit Carryback Provision (CAUTION – Do Not Complete Part III If You Are Carrying Loss Back)

If the amount on line 7, Part II above is a negative figure, you may elect to carry this loss forward or it must be carried back 2 years (3 years prior to January 1, 1998) and any unused portion may then be carried forward to succeeding years (see instructions). See Part III instructions for election to forfeit carryback provision.

I hereby elect to forfeit the carryback provision and instead elect to carryforward any allowable net operating loss for this taxable year.

☐

Your Signature

Date

Spouse's Signature (if joint return, BOTH must sign)

Instructions For Completing Form NOL-85

General Instructions

The Alabama Legislature passed Act 98-502 which amended the net operating loss deduction for individuals for tax years beginning after December 31, 1997. Rule 810-3-15-.27 was promulgated to administer the new NOL law set forth in Section 40-18-15.2.

A net operating loss is an amount that business deductions (after modifications) exceed business income. The most common reason for an NOL is a loss in operating a business or from the sale of business assets. However, casualty and theft losses can also create an NOL. Alabama law limits the kinds of deductions and the amounts that can be used to figure an NOL.

The Alabama NOL provision is similar to the Federal NOL in many ways. Federal guidelines will be followed, whenever possible, in administering the Alabama NOL.

Form NOL-85 should be completed to determine if you have an NOL, and if so, the amount that can be carried back or carried forward. If you follow the specific instructions below, you should be able to complete Form NOL-85 quickly and accurately.

Specific Instructions

Before Part I or Part II can be completed, you must first complete Form 40 or Form 40NR through the taxable income line for the loss year. If any amount in the loss year return results in a negative figure, it should be shown as a negative figure on the return instead of zero.

Example:

2000 Adjusted Gross Income (\$ 2,000.00)
Less: Total Deductions 8,500.00
Taxable Income (\$10,500.00)

Heading

Enter the name and social security number of the taxpayer exactly as shown on the loss year return.

In the upper right corner, enter the date that the loss year ends. A calendar year taxpayer should enter 12-31-____ and a fiscal year taxpayer should enter the date the fiscal tax year ends.

PART I

Excess Nonbusiness Deductions Over Nonbusiness Income

Line 1a. Enter the federal income tax claimed as a deduction on the loss year return.

Line 1b. Enter the total of all losses resulting from the sale of property and other assets not used in a trade or business.

Lines 1c-1h. The adjustments to income for items listed on lines 1c-1h are considered nonbusiness deductions for the purpose of figuring an NOL. If you claimed any of these adjustments to income on Part II, Form 40, or Parts II or III of Form 40NR, the amount claimed should be entered on the appropriate lines.

Lines 2a and 2b. If you claimed the **Standard Deduction**, enter the amount claimed on line 2a and omit lines 2b, 3a-3b, 4, and 5. If you claimed **Itemized Deductions**, enter on line 2b the total of all itemized deductions claimed in Schedule A.

Line 3a. If you claimed a deduction for a casualty or theft loss on Schedule A, the amount claimed should be entered on this line.

Line 3b. Enter the total of all business related expenses claimed on Schedule A as a miscellaneous deduction, including those expenses (after 2% A.G.I. limitation) reported on Federal Form 2106. For the purpose of determining an NOL, these include the following expenses if incurred in the production or protection of business income:

- Union dues
- Safety equipment, small tools, and supplies used in the taxpayer's job.
- Protective clothing, such as hard hats and safety shoes.
- Uniforms required by your employer.
- Physical examinations required by your employer.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies to secure employment.
- Safety deposit box.
- Clerical help.
- Office rent and expenses for office in home.
- Educational expenses required by employer or to maintain present skills.
- Telephone required for business.
- Travel expenses to a second job.

Note: Tax preparation fees do not qualify as a business expense for the purpose of determining an NOL. (If business related, the tax preparation fees should

be claimed on Schedule C or Schedule F.)

Caution: Nonresidents should include only business expenses related to their Alabama source income when completing line 3b.

Lines 7a-7g. The income items shown on lines 7a-7g are considered non-business income for the purpose of determining an NOL. If you reported income from any of these sources on Form 40 or Form 40NR, the taxable amount reported should be entered on the appropriate line. Examples of items that should be included on these lines are as follows:

Line 7a. Interest and dividend income including distributive shares of interest and dividend income received by a partnership or an Alabama S corporation.

Line 7b. Gains or losses from the sale of assets not used in a trade or business (including distributive shares of gains or losses from such assets held by a partnership or an Alabama S corporation).

Line 7g. Other nonbusiness income includes items such as gains from the sale of a personal residence to the extent recognized for federal purposes, royalty income, gambling income, prizes, awards, and director's fees.

PART II

Computation of Net Operating Loss

Line 1. Enter the taxable income shown on Form 40 or Form 40NR on this line.

Line 2. When calculating an NOL, a net operating loss carryover or carryback from another year cannot be used in computing the NOL deduction. If you claimed an NOL deduction for another year on the loss year return, thereby reducing taxable income, the amount claimed should be entered on this line. The amount should be entered as a positive figure even though it is shown as a negative figure on the loss year return.

Lines 3 and 4. The personal exemption and dependent exemption claimed in the loss year return should be entered on these lines.

Line 5. The amount shown on line 9, Part I should be entered on this line.

Line 7. Combine the negative amount from line 1 with the positive amounts from line 6. If the result is a positive figure, you **DO NOT** have a net operating loss and should not file Form NOL-85.

Example I:

Taxable income from Form 40 (\$5,000.00)
Total Modifications 7,000.00
NET-OPERATING LOSS00

In Example I above there is no net operating loss since the Total Modifications \$7,000.00 are more than the Taxable Income (\$5,000.00).

Example II:

Taxable income from Form 40 (\$15,000.00)
Total Modifications 7,000.00
NET-OPERATING LOSS (\$ 8,000.00)

In Example II above, there is a net operating loss of \$8,000.00. In order to carry the loss back or forward you must also complete **Form NOL-85A**, making the modifications as required. See the instructions for Form NOL-85A for further information for carrying the loss back or forward.

PART III

Election to Carry Net Operating Loss Forward

You may elect to forego the carryback of a net operating loss deduction and instead carry the loss forward to the first available year following the loss year. This election, once made, is irrevocable.

For loss years beginning before January 1, 1998, such an election must be made on or before the due date (with extensions) for filing the income tax return for the tax year. The election, once made, is irrevocable.

For loss years beginning after December 31, 1997, the election to forego the carryback period can be made in one of two ways. The election can be made on or before the due date (with extensions) for filing the income tax return for the loss year. If no election is made by the due date of the loss year return, then the filing of the next year's return by the due date, including extensions and claiming the loss on the return shall be considered the taxpayer's election to forego the carryback period. The election, once made, is irrevocable.

If you elect to carry the loss back, attach Form NOL-85 to the loss year return, but **DO NOT SIGN** the statement in Part III. If a proper election to forego the carryback period is not made, or is not timely made, the NOL must be carried back to the earliest year preceding the loss year in which the NOL may be utilized. Attach Form NOL-85A to **Form 40X**, Amended Alabama Individual Income Tax Return for the earliest year available when claiming a carryback. To carry the loss forward, you should attach Form NOL-85A to the first available year following the loss year.

Net Operating Loss Carryback or Carryforward

(Enter year to which loss is being carried)

Name(s) as shown on Form 40, 40NR, or 40X

Your Social Security Number

PURPOSE OF SCHEDULE. Form NOL-85A is designed to apply a net operating loss to the tax year to which the loss is being carried. Before Form NOL-85A can be completed, you **must** first complete Form NOL-85 to determine the amount of net operating loss that may be carried back or forward. See instructions on the reverse side for further information.

- 1(a) Enter the tax year during which the net operating loss was incurred. Beginning _____, Ending _____
- (b) Did you elect on Form NOL-85 to forfeit the election to carry this loss back? ☐ Yes ☐ No
- (c) Did you timely file the subsequent year's return and claim the net operating loss thereon? ☐ Yes ☐ No

PART I – Computation

2	Enter the net operating loss as shown on line 7, Part II, Form NOL-85, or as shown on line 7, Form NOL-85A. (See instructions) ▶	2		
3	Enter the taxable income as shown on Form 40, Form 40NR, or Form 40X for the tax year to which the loss is being carried	3		
4(a)	Personal Exemption. Enter the amount of personal exemption claimed on the return to which the loss is being carried	4a		
4(b)	Dependent Exemption. Enter the amount of dependent exemption claimed on the return to which the loss is being carried	4b		
5	TOTAL MODIFICATIONS. Add lines 4(a) and 4(b)	5		
6	MODIFIED TAXABLE INCOME. Add lines 3 and 5	6		
7	UNUSED NET OPERATING LOSS. If line 2 exceeds line 6, subtract line 6 from line 2. Enter difference here and enter zero (0) on the tax due line of Form 40 or Form 40NR. DO NOT complete Part II below. The amount on line 7 may be carried forward to the next applicable year (Form NOL-85A, line 2). If line 6 exceeds line 2, enter zero here and complete Part II below. ▶	7		

If the Net Operating Loss Deduction on line 2 above is:

- a. **Less** than the taxable income reported on line 3 above, complete lines 8 through 14 below.
- b. **Equal to or greater** than the taxable income reported on line 3 above, check here ☐ and **SKIP** lines 8 through 13, and enter zero on line 14.

PART II – Application

8	Enter the Adjusted Gross Income as shown on the return (or prior adjustment or prior NOL-85A) for the year to which the loss is being carried	8		
9	Net Operating Loss to be Applied. Enter the amount from line 2, Part I above.	9		
10	MODIFIED ADJUSTED GROSS INCOME. Subtract line 9 from line 8 and enter the result here. (If you filed Form 40NR, complete Part III before completing lines 11 through 14.) ▶	10		
11(a)	Standard Deduction. If you claimed the Standard Deduction on the return to which the loss is being carried, recompute the Standard Deduction based on the Modified Adjusted Gross Income shown on line 10.	11a		
11(b)	Itemized Deductions. If you claimed Itemized Deductions on the return to which the loss is being carried, recompute the itemized deductions based on the Modified Adjusted Gross Income shown on line 10.	11b		
11(c)	Federal Income Tax. Enter the federal income tax as last determined and claimed as a deduction on the return to which the loss is being carried	11c		
11(d)	Personal Exemption. Enter the personal exemption as last determined and claimed on the return to which the loss is being carried.	11d		
11(e)	Dependent Exemption. Enter the dependent exemption as last determined and claimed on the return to which the loss is being carried	11e		
12	TOTAL DEDUCTIONS. Add lines 11a through 11e	12		
13	TAXABLE INCOME AS ADJUSTED. Subtract line 12 from line 10 and enter result here ▶	13		
14	TAX DUE AFTER APPLICATION OF NET OPERATING LOSS. Compute the tax due using the tax tables for the year to which the loss is being carried. Enter the result here and also on the TAX DUE line of Form 40X, Form 40, or Form 40NR. ▶	14		

PART III – Modified Adjusted Gross Income Percentage (This section to be completed by nonresidents only)

15	Adjusted Gross Income From All Sources. Enter the adjusted gross income from all sources as shown on the return to which the loss is being applied	15		
16	Net Operating Loss to be Applied. Enter the amount shown on line 9, Part II	16		
17	Modified Adjusted Gross Income From All Sources. Subtract line 16 from line 15	17		
18	Modified Adjusted Gross Income From Alabama Sources. Enter the amount from line 10, Part II	18		
19	Percentage of Alabama Adjusted Gross Income to Total Adjusted Gross Income From All Sources After Modifications. Divide the amount on line 18 by the amount on line 17 and enter percentage here (but not over 100%)....	19		

The percentage on line 19 should be used to recompute the Standard Deduction or Itemized Deductions, Federal Income Tax Deduction, Personal Exemption, and Dependent Exemption on lines 11a through 11e, Part II. **NOTE:** If you are married and filed separate Alabama returns and a joint Federal return, **DO NOT** use the percentage on line 19 to recompute the federal income tax deduction. See Special Instructions for Nonresidents.

Instructions For Completing Form NOL-85A

General Instructions

If you incurred a net operating loss for a taxable year beginning after December 31, 1984, **Form NOL-85A** should be used to carry the loss back or forward.

For loss years beginning before January 1, 1998, a net operating loss may be carried back and deducted from taxable income of the three years preceding the loss. Any unused portion of the loss may then be brought forward for 15 years or until used up, whichever comes first. For loss years beginning after December 31, 1997, a net operating loss may be carried back and deducted from taxable income of the two years preceding the loss. Any unused portion of the loss may then be brought forward for 15 years. The loss must be carried back before bringing forward, unless an election is made to forfeit the carryback provision or the loss is claimed on the subsequent year's timely filed return.

Before Form NOL-85A can be completed, you must first complete Form NOL-85 to determine the actual amount of the net operating loss that may be carried back or brought forward.

If a net operating loss is not used up the first year to which it is applied, you must complete another Form NOL-85A to carry the unused portion to the next available year.

Special Instructions

Most lines on Form NOL-85A are self-explanatory. The following information is provided for those lines needing further explanation.

In the top right corner, enter the tax year to which the loss is being carried.

Line 2. If this is the first year to which the net operating loss is being applied, enter the amount shown on Form NOL-85, Part II, line 7. If the entire loss was not used up the first year to which the loss was applied, then the amount shown on line 7 of the previous Form NOL-85A should be entered on line 2.

Line 3. The taxable income as shown on the return to which the loss is carried should be entered on this line. Example: If the loss is carried to a 2000 Form 40, the taxable income is on line 18.

Lines 4a and 4b. Enter the personal exemption and dependent exemption claimed on the return to which the loss is carried. If you did not receive a tax benefit for the full amount of these exemptions, enter only the amount for which you received a tax benefit.

Line 7. Complete line 7 to determine if you have any unused net operating loss to carry to another tax year.

If the amount on line 7 is more than zero, this represents the unused net operating loss that can be carried over to another tax year. This amount should be entered on line 2 of Form NOL-85A for the tax year to which it is being carried.

BEFORE COMPLETING LINES 8 THROUGH 14 — Compare the amounts on lines 2 and 3. If the amount on line 2 is **less** than the amount on

line 3, you must complete lines 8 through 14 to determine the tax due after applying the net operating loss.

If the amount on line 2 is **equal to or greater** than the amount on line 3, **skip** lines 8 through 13 and enter zero on line 14.

Line 8. The Adjusted Gross Income as shown on the return to which the loss is being carried should be entered on line 8. If this return has been amended or adjusted, enter the adjusted gross income as last amended or last adjusted. If a net operating loss from another year has previously been applied to this year, then the amount on line 10 of Form NOL-85A should be entered on this line.

NOTE: If more than one Net Operating Loss is applied to the same tax year, the earliest loss incurred must be applied first. A separate NOL-85A must be completed for each loss.

For further information on applying more than one net operating loss to the same tax year, please refer to Regulation 810-3-15-27 (Section 40-18-15.2, **Code of Alabama 1975**). A copy of this regulation is available upon request.

Special Instructions for Nonresidents

Nonresidents must complete Part III before completing Part II, lines 11a through 11e. This is necessary in order to arrive at a new percentage to determine the Standard or Itemized Deductions, Federal Income Tax Deduction, Personal Exemption and Dependent Exemption allowable as a deduction after applying the net operating loss.

If you are married and filed separate Alabama returns and a joint Federal return, you must make a separate computation to determine the Federal Income Tax Deduction. Use the following worksheet to determine this percentage:

1. Your Modified Adjusted Gross Income From All Sources as shown on line 17, Part III Form NOL-85A \$ _____
2. Your spouse's Federal Adjusted Gross Income _____
3. Add the amounts on lines 1 and 2 \$ _____
4. Divide the amount on line 1 by the amount on line 3 _____%

Multiply the Federal Income Tax Liability by the percentage on line 4 and enter the result on line 11c.

A COPY OF FORM NOL-85A MUST BE ATTACHED TO FORM 40X, FORM 40, OR FORM 40NR.

BE SURE TO KEEP A COPY FOR YOUR RECORDS FOR FURTHER REFERENCE.

Declaration Control Number (DCN)

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FORM

AL8453

ALABAMA DEPARTMENT OF REVENUE

Individual Income Tax Declaration for Electronic Filing

2004

For the year January 1 – December 31, 2004

Label

Use Alabama
label.
Otherwise,
please type
or print.

L A B E L H E R E	Your first name and initial		Last name	
	If a joint return, spouse's first name and initial		Last name	
	Home address (number and street). If a P. O. Box, see instructions.			Apt. no.
	City, town or post office, state, and ZIP code			

Your social security number	
:	:
Spouse's soc. sec. no. if joint return	
:	:
Telephone number (optional)	
()
FN (For official use only)	

Part I
Tax Return
Information

(Whole dollars only.)

1	Alabama taxable income (Form 40, line 17)	1
2	Total tax liability (Form 40, line 22)	2
3	Total payments (Form 40, line 26)	3
4	Refund (Form 40, line 33)	4
5	Amount you owe (Form 40, line 27)	5

Part II
Direct
Deposit

- 1 Routing number:
- 2 Account number:
- 3 Type of account: ☐ Checking ☐ Savings

Part III
Declaration
of Taxpayer(Sign only after Part I
is completed.)Sign
Here ▶

Under penalties of perjury, I declare that I have compared the information contained on my return with the information I have provided to my electronic return originator and that the amounts described in Part 1 above agree with the amounts shown on the corresponding lines of my 2004 Alabama individual income tax return. To the best of my knowledge and belief this return, including any accompanying schedules and statements, is true, correct, and complete. Also, I hereby authorize the Alabama Department of Revenue to disclose to my ERO described below, any information concerning the disbursement of the refund requested or any problems encountered in the processing of my return.

☐ I authorize a representative of the Department of Revenue to discuss my return and attachments with my preparer.

_____ Your signature	_____ Date	_____ Spouse's signature. If a joint return, BOTH must sign.	_____ Date
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Part IV
Declaration
of
Electronic
Return
Originator
(ERO) and
Paid
Preparer

(See instructions.)

I declare that I have reviewed the above taxpayer's Alabama individual income tax return and that the entries on this form are complete and correctly represented based on all information of which I have any knowledge. I also declare that I have followed all other requirements described in IRS PUB. 1345, Revenue Procedures for Electronic Filing of Individual Income Tax Returns (Tax Year 2004), and the Alabama Handbook for Electronic Filers of Individual Income Tax Returns (Tax Year 2004). **If I am also the paid preparer, under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.**

ERO's Use Only

ERO's signature ▶	Date	Check if also paid preparer <input type="checkbox"/>	Preparer's SSN or PTIN : :
Firm's name (or yours if self-employed) and address ▶	E.I. No.		ZIP Code

Paid Preparer's Use Only

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Preparer's signature ▶	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN : :
Firm's name (or yours if self-employed) and address ▶	E.I. No.		ZIP Code

Form AL8453 2004

DO NOT MAIL TO ALABAMA DEPT. OF REVENUE
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